

**REPORT OF THE AUDIT OF THE
MCCRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

July 25, 2005



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
MCCRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

July 25, 2005

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for McCracken County Sheriff as of July 25, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$22,014,824 for the districts for 2004 taxes, retaining commissions of \$734,632 to operate the Sheriff's office. The Sheriff distributed taxes of \$21,191,139 to the districts for 2004 Taxes. Taxes of \$136 are due to the districts from the Sheriff and refunds of \$3,881 are due to the Sheriff from the taxing districts.

Report Comments:

- The Depository Institution Should Have Provided Sufficient Collateral As Required By The Written Agreement
- Internal Controls Over Computer System Should Be Strengthened

Deposits:

The Sheriff's deposits as of October 31, 2004, were uncollateralized and uninsured by \$8,427,795.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Danny Orazine, McCracken County Judge/Executive

Honorable Frank Augustus, McCracken County Sheriff

Members of the McCracken County Fiscal Court

Independent Auditor's Report

We have audited the McCracken County Sheriff's Settlement - 2004 Taxes as of July 25, 2005. This tax settlement is the responsibility of the McCracken County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the McCracken County Sheriff's taxes charged, credited, and paid as of July 25, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 29, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Danny Orazine, McCracken County Judge/Executive
Honorable Frank Augustus, McCracken County Sheriff
Members of the McCracken County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Depository Institution Should Have Provided Sufficient Collateral As Required By The Written Agreement
- Internal Controls Over Computer System Should Be Strengthened

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 29, 2006

MCCRACKEN COUNTY
FRANK AUGUSTUS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

July 25, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,631,002	\$ 3,263,030	\$ 8,303,320	\$ 3,162,209
Tangible Personal Property	267,252	608,305	1,340,399	1,517,923
Intangible Personal Property				586,044
Increases Through Exonerations	2,907	11,718	14,107	4,611
Franchise Corporation	223,737	305,274	519,755	
Additional Billings	994	1,171	3,407	8,776
Limestone, Sand, and Mineral Reserves	100	119	409	120
Penalties	15,157	22,703	52,978	20,456
Adjusted to Sheriff's Receipt	22	45	2	24
Gross Chargeable to Sheriff	<u>3,141,171</u>	<u>4,212,365</u>	<u>10,234,377</u>	<u>5,300,163</u>
<u>Credits</u>				
Exonerations	13,718	19,409	49,580	18,927
Discounts	45,283	60,121	151,018	85,827
Delinquents:				
Real Estate	41,300	51,075	97,402	49,636
Tangible Personal Property	2,385	7,140	15,147	9,818
Intangible Personal Property				1,341
Unpaid Additional Bills	38	63	154	45
Uncollected Franchise	<u>27,643</u>	<u>38,701</u>	<u>87,481</u>	
Total Credits	<u>130,367</u>	<u>176,509</u>	<u>400,782</u>	<u>165,594</u>
Taxes Collected	3,010,804	4,035,856	9,833,595	5,134,569
Less: Commissions *	<u>128,247</u>	<u>142,038</u>	<u>245,840</u>	<u>218,507</u>
Taxes Due	2,882,557	3,893,818	9,587,755	4,916,062
Taxes Paid	2,870,518	3,875,218	9,562,212	4,883,191
Refunds (Current and Prior Year)	<u>12,061</u>	<u>18,669</u>	<u>29,182</u>	<u>32,886</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (22)</u>	<u>\$ (69)</u>	<u>\$ (3,639)</u>	<u>\$ (15)</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

MCCRACKEN COUNTY
 FRANK AUGUSTUS, SHERIFF
 SHERIFF'S SETTLEMENT - 2004 TAXES
 July 25, 2005
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	10,961,406
4% on	\$	327,765
2.5% on	\$	9,833,595
1% on	\$	882,059

** Special Taxing Districts:

Library District	\$	103
Health District		(5)
Extension District		(5)
Mental Health District		1
Reidland Fire District		13
Hendron Fire District		1
Concord Fire District		2
Lone Oak Fire District		(13)
City of Lone Oak		(182)
Paducah Junior College District		<u>16</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>(69)</u></u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT

July 25, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of October 31, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$8,427,795 of public funds uninsured and unsecured.

MCCRACKEN COUNTY
 NOTES TO FINANCIAL STATEMENT
 July 25, 2005
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Uncollateralized and uninsured	<u>8,427,795</u>
Total	<u>\$ 8,527,795</u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 9, 2004 through April 29, 2005.

Note 4. Interest Income

The McCracken County Sheriff earned \$23,844 as interest income on 2004 taxes. As of August 29, 2006, the Sheriff owed \$339 in interest to the school district and \$1,427 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The McCracken County Sheriff collected \$93,913 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of August 29, 2006, the Sheriff overpaid his fee account by \$64 in 10% add-on fees.

Note 6. Advertising Costs And Fees

The McCracken County Sheriff collected \$5,265 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs and advertising fees to the county.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2004 taxes, the Sheriff had \$1,978 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENTS AND RECOMMENDATIONS

MCCRACKEN COUNTY
FRANK AUGUSTUS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of July 25, 2005

STATE LAWS AND REGULATIONS:

The Depository Institution Should Have Provided Sufficient Collateral As Required By The Written Agreement

On October 31, 2004, \$8,427,795 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral, which, together with Federal Deposit Insurance Corporation Insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the depository institution pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

The depository institution has been contacted regarding this.

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

Internal Controls Over Computer System Should Be Strengthened

While performing audit procedures pertaining to the Sheriff's Tax Settlement, auditors noted matters involving the internal controls over the computer system that we consider a material weakness. The Sheriff is responsible for the design and implementation of programs and controls to prevent and detect fraud as it relates to his duties as an elected official. In order to strengthen internal controls over the computer system, we recommend the following controls be implemented:

- Any person logging into the AS400 tax computer system should have his/her own secured password preventing him/her from logging in as another user. The current system allows a user to log in as another user.
- Current year tax information should be accessible to the Sheriff's Office only. Other entities such as the County Clerk's Office should not be able to access current year tax data. The current system allows multiple entities within the county to at least access the tax data and in some cases manipulate this data. Such a condition has led to problems in recalculating the taxes collected by the Sheriff, mainly due to the delinquent tax list being incomplete.
- Tax bills should not be able to be erased or deleted from the tax system. The current system allows for such deletion.
- Original tax bills modified by exonerations or any other increase/decrease should not be lost from the system. Users should have the ability to revisit the original tax roll information. Under the current system, once a tax bill is modified, the original bill information is overridden and lost.
- Partial payments should not be considered paid in full by the computer system. The remaining portion of the tax bill should be disclosed on the delinquent tax list. Under the current system, the unpaid portion of a partially paid tax bill is not included on the delinquent tax list. Such a condition could result in an incomplete delinquent tax list.

MCCRACKEN COUNTY
FRANK AUGUSTUS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of July 25, 2005
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:
(Continued)

Internal Controls Over Computer System Should Be Strengthened (Continued)

- A manual log should be maintained for any changes made to the tax system or tax data. This log should include changes made to the system and/or data and the person making such changes.
- Daily backups should be made in order to prevent lost data. Such backups should be stored in a secured, off-site location that is safe in the event of a disaster.

Sheriff's Response:

The Sheriff has in the past requested new tax program for control of above. The County is aware of problems of current program. The Sheriff is unable to conduct backups, only the clerk's office. The County request only updates to the current program used.

PRIOR YEAR:

None.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To Honorable Danny Orazine, McCracken County Judge/Executive
Honorable Frank Augustus, McCracken County Sheriff
Members of the McCracken County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the McCracken County Sheriff's Settlement - 2004 Taxes as of July 25, 2005, and have issued our report thereon dated August 29, 2006. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCracken County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Internal Controls Over Computer System Should Be Strengthened

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCracken County Sheriff's Settlement - 2004 Taxes as of July 25, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Depository Institution Should Have Provided Sufficient Collateral As Required By The Written Agreement

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 29, 2006

